

INTERNAL SERVICE FUND

Internal services funds are a propriety type fund that accounts for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal services fund is the Risk Management fund, which is used to account for its risk management activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's risk management and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and/or delivering goods in connection with proprietary fund's principal ongoing operations. Approximately 85% of the operating revenues of the County's five proprietary funds consist of user and administrative fees.

The modified accrual basis of accounting is followed by the governmental fund types and agency funds for financial statement purposes. Under the modified accrual

basis of accounting, revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period (amounts collected within 60 days after year end).

Those revenues susceptible to accrual are property taxes, gross receipts taxes, investment income and charges for services. Grant revenues are recognized as revenues when the related costs are incurred. All other revenues are recognized when they are received and are not susceptible to accrual, because they are usually not measurable until payment is actually received. Expenditures are recorded as liabilities when they are incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The County reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the County before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria methods are met or when the County has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are recorded.